

105TH CONGRESS }
1st Session

COMMITTEE PRINT

{ WMCP:
105-3

SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO THE WTO MINISTE-
RIAL MEETING IN SINGAPORE AND
TO HONG KONG AND THE PEOPLE'S
REPUBLIC OF CHINA



JANUARY 29, 1997

Printed for the use of the Committee on Ways and Means by its staff

U.S. GOVERNMENT PRINTING OFFICE

38-087 CC

WASHINGTON : 1997

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois	CHARLES B. RANGEL, New York
BILL THOMAS, California	FORTNEY PETE STARK, California
E. CLAY SHAW, JR., Florida	ROBERT T. MATSUI, California
NANCY L. JOHNSON, Connecticut	BARBARA B. KENNELLY, Connecticut
JIM BUNNING, Kentucky	WILLIAM J. COYNE, Pennsylvania
AMO HOUGHTON, New York	SANDER M. LEVIN, Michigan
WALLY HERGER, California	BENJAMIN L. CARDIN, Maryland
JIM McCRERY, Louisiana	JIM McDERMOTT, Washington
DAVE CAMP, Michigan	GERALD D. KLECZKA, Wisconsin
JIM RAMSTAD, Minnesota	JOHN LEWIS, Georgia
JIM NUSSLE, Iowa	RICHARD E. NEAL, Massachusetts
SAM JOHNSON, Texas	MICHAEL R. McNULTY, New York
JENNIFER DUNN, Washington	WILLIAM J. JEFFERSON, Louisiana
MAC COLLINS, Georgia	JOHN S. TANNER, Tennessee
ROB PORTMAN, Ohio	XAVIER BECERRA, California
PHILIP S. ENGLISH, Pennsylvania	KAREN L. THURMAN, Florida
JOHN ENSIGN, Nevada	
JON CHRISTENSEN, Nebraska	
WES WATKINS, Oklahoma	
J.D. HAYWORTH, Arizona	
JERRY WELLER, Illinois	
KENNY HULSHOF, Missouri	

A.L. SINGLETON, *Chief of Staff*

JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON TRADE

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California	ROBERT T. MATSUI, California
E. CLAY SHAW, JR., Florida	CHARLES B. RANGEL, New York
AMO HOUGHTON, New York	RICHARD E. NEAL, Massachusetts
DAVE CAMP, Michigan	JIM McDERMOTT, Washington
JIM RAMSTAD, Minnesota	MICHAEL R. McNULTY, New York
JENNIFER DUNN, Washington	WILLIAM J. JEFFERSON, Louisiana
WALLY HERGER, California	
JIM NUSSLE, Iowa	

(II)

LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC, January 29, 1997.

Hon. BILL ARCHER,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: I am pleased to transmit to you the enclosed delegation report on the recent Subcommittee on Trade mission to Hong Kong, Singapore, and China. The report contains an overview of the mission, summaries of meetings with foreign and U.S. officials, and copies of several documents pertinent to our mission. The delegation's visit was especially important in light of the first Ministerial Meeting of the World Trade Organization held in Singapore during our visit, the reversion of Hong Kong to Chinese control in 1997, and a variety of trade issues with respect to China, including its accession to the WTO and its current conditional most-favored-nation status with the United States.

The report describes the bilateral and multilateral economic and trade issues which were investigated during the trip. As the year proceeds with further consideration of the U.S.-China trade relationship as well as issues relating to the WTO, I hope that this information will be useful to you.

With best personal regards,

PHILIP M. CRANE,
Chairman.

Enclosure.

MEMBERS OF THE DELEGATION

MEMBERS OF THE HOUSE OF REPRESENTATIVES

HON. PHILIP M. CRANE, <i>Chairman</i>	HON. CHARLES B. RANGEL
HON. JIM KOLBE	HON. MICHAEL R. MCNULTY
HON. JENNIFER DUNN	HON. KAREN L. THURMAN
HON. MAC COLLINS	

MEMBER OF THE SENATE

HON. CHARLES GRASSLEY

COMMITTEE STAFF

ANGELA PAOLINI ELLARD	JANICE MAYS
MEREDITH BROADBENT	BRUCE WILSON
KAREN HUMBEL	

CONTENTS

	Page
Letter of Transmittal	III
Members of the Delegation	V
Overview of the Mission	1
Administration Briefing En Route	2
Hong Kong	4
Singapore	6
People's Republic of China	16
Appendix	
A. Subcommittee press release announcing trade mission, December 5, 1996	25
B. Survey by the American Chamber of Commerce in Hong Kong entitled, "1996 AMCHAM Business Confidence Survey"	26

Overview of the Mission

From December 5 through 17, 1996, a delegation of the Subcommittee on Trade of the Committee on Ways and Means visited Hong Kong, Singapore, and the People's Republic of China to conduct a factfinding mission. The primary purposes of the trip were to attend the first Ministerial Meeting of the World Trade Organization (WTO), held in Singapore during the time of the delegation's visit, to examine the bilateral relationship with China and explore issues relating to Chinese accession to the WTO, and to meet with Hong Kong Government and business officials to discuss the reversion of Hong Kong to Chinese control in 1997.

In Singapore, the delegation had the opportunity to discuss WTO issues with delegations from other WTO member countries, including Canada, the European Union (EU), Singapore, and countries seeking to accede to the WTO, including China, Taiwan, and Russia. The Ministerial Meeting examined implementation of the WTO Agreements and the progress made thus far in their nearly 2 years of operation. In addition, the meeting addressed the "built-in agenda" already set for further negotiation, additional market access liberalization in selected areas, the working party report on trade and the environment, the extended negotiations in services, and potential new issues for further negotiation. Most importantly, the meeting's greatest accomplishment was the Information Technology Agreement (ITA), an agreement which would eliminate tariffs in the information technology area. In addition, the delegation met with the Prime Minister, Trade Minister, and Foreign Minister of Singapore to explore bilateral trade matters and issues relating to trade with the Newly Industrialized Countries and with the countries in the Asia-Pacific region.

While in Hong Kong, the delegation met with Hong Kong Government officials and business representatives to discuss the reversion of Hong Kong to Chinese control in July 1997. The China leg of the trip provided the delegation an opportunity to discuss the Chinese bid for accession to the WTO and the nature of the bilateral trade relationship between the United States and China including the current conditional most-favored-nation (MFN) status.

See Appendix A for the press release announcing the delegation's visit.

Hong Kong

On December 7, 1996, the delegation received an extensive briefing from Consul General Boucher concerning political, economic, and trade situation in Hong Kong and the prospects for Hong Kong's future after reversion to Chinese control in July 1997. The delegation then proceeded to the Consul General's residence and met with officials from the Hong Kong Government, the Legislative

Council, various Hong Kong business and political figures, and U.S. business representatives. On Sunday, December 8, the delegation met with representatives from the American Chamber of Commerce in Hong Kong to explore their views on the reversion and how it might affect stability and business opportunities in the region.

Singapore

On December 9, 1996, the delegation traveled to Singapore to participate in the first Ministerial Meeting of the WTO. While in Singapore, the delegation received briefings from Acting U.S. Trade Representative (USTR) Charlene Barshefsky and other U.S. Government officials. In addition, the delegation met with delegations from Canada, Taiwan, the European Union, and Russia. The delegation also met with senior officials from the Singapore Government, including the Prime Minister, the Trade Minister, and the Foreign Minister. During these meetings, members of the delegation exchanged views on the operation and implementation of the WTO, the negotiation of an ITA, the treatment of labor issues and worker rights in the WTO, negotiation of the accession of China, Russia, and Taiwan to the WTO, market access and trade barriers in the textile, agriculture, and paper industries, as well as trade issues in the Asia-Pacific region. The delegation also met with representatives from the National Association of Manufacturers to discuss issues significant to U.S. businesses in the region.

The People's Republic of China

On December 12, 1996, the delegation traveled to Beijing, China. After an extensive briefing by Embassy officials, the delegation met with government officials concerning U.S.-China trade relations. In particular, the delegation met with Vice Premier Zhu Rongji, State Planning Commission Vice Chairman Gan Ziyu, and MOFTEC Vice Minister Sun Zhenyu. These meetings provided the delegation with an opportunity to exchange views concerning Chinese accession to the WTO, the nature of the trade relationship between the United States and China in general and relating to the current conditional most-favored-nation treatment in particular, the reversion of Hong Kong to Chinese control, and various market access issues. In addition, the delegation met with representatives from the American Chamber of Commerce in China to obtain the perspective of U.S. businesses on these issues.

Administration Briefing En Route

Briefing by Ambassador Lang

December 5, 1996

While en route from Washington, DC, to Asia, Ambassador Jeffrey Lang briefed the delegation concerning the WTO Singapore Ministerial Meeting. He explained that there were four new issues under discussion by the ministers: the relationship between labor issues and trade, competition policy, investment, and the treatment of bribery and corruption. He emphasized that these new issues were being discussed apart from the negotiations on reducing tariffs in the information technology industry.

With respect to labor issues, Lang stated that the administration has a statutory mandate under the Uruguay Round Agreements Act to seek to establish a working party on worker rights within the WTO. He concluded, however, that a working party would not be established because of opposition by a number of U.S. trading partners. Instead, the administration was seeking an ongoing process to address labor issues through the WTO. Although the issue is controversial, he stated that the countries in opposition to addressing the issue, including the developing countries, do not see it as a tradeoff for the ITA.

With respect to investment, Lang stated that the administration's approach is to obtain a high quality agreement through the Organization of Economic Cooperation and Development before pursuing the issue within the WTO. The EU, however, favors addressing investment within the WTO. The likely outcome, Lang stated, is an agreement to discuss the issue further.

As to competition policy, Lang stated that a global antitrust agreement would lead to increased market access. However, he noted that the Asians want to discuss weakening antidumping provisions as part of the discussion, but the EU is fundamentally opposed to discussing antidumping modifications. Lang emphasized that the United States will not take a position on this issue without discussing it with Congress first.

Finally, Lang stated that he was not sure how far negotiations for transparency in government procurement would go, but the issue would be raised in the future because it is important for U.S. businesses.

Lang then briefed the delegation on the ITA. He stated that a successful outcome of the ITA was important because it would demonstrate that the WTO can move forward and would provide an important momentum for the ongoing services negotiations and the built-in agenda. He noted that the Asians now were in basic agreement as a result of the recent APEC meeting. He mentioned some of the more difficult issues in the negotiations, including the EU opposition to including video and audio software and the U.S. sensitivities on capacitors and fiber optics. He also mentioned that the dividing line between computer monitors and televisions was very controversial.

Lang then warned the delegation that in its meetings, some of the representatives from foreign delegations would likely criticize the United States concerning the Helms-Burton legislation on Cuba and the Iran-Libya sanctions. He stated that the administration has responded to such criticism by stating that these are political and not trade issues because of the effect on national security. He stated that the administration intends to enforce these laws and simply "will not deal with pariah states."

The delegation next discussed the importance of having fast track rules in place. Lang mentioned that fast track is essential for negotiations with Chile specifically and MERCOSUR in general, trade relations with sub-Saharan Africa, and built-in agenda negotiations. In addition, fast track is necessary to teach the U.S. trade paradigm to the developing countries. Chairman Crane raised his concerns relating to using fast track to achieve labor and environmental objectives that are not directly related to trade.

Hong Kong

Briefing by Hong Kong Consulate General

December 7, 1996

Consul General Boucher briefed the delegation concerning developments in the Hong Kong reversion to Chinese rule in July 1997. He stated that the new Chief Executive would be selected on December 11 and the Provisional Legislature on December 21. He stated that the dissolving of the current elected and newly reformed Legislative Council (LEGCO) and the establishment of the Provisional Legislature in its place was "unwise and unnecessary." He said that the goal of the United States during the transition was to assure that China keep its commitments concerning Hong Kong.

Scot Marciel then briefed the delegation concerning Hong Kong trade issues. Specifically, he mentioned that Hong Kong would retain its memberships after the transition in the WTO and in APEC. He also noted that Hong Kong was "working well" on the goal of achieving an ITA at the Singapore Ministerial Meeting. He then mentioned some of the trade "irritants" between the United States and Hong Kong. One such concern relates to the transshipment of textiles from China through Hong Kong in an effort to avoid quota restrictions. Marciel said that the Hong Kong authorities have now decided to "crack down" on illegal transshipment and that he believes the issue can be resolved if such enforcement efforts continue. Another sensitive issue between the United States and Hong Kong relates to the transshipment through Hong Kong of products that violate U.S. intellectual property rights. The United States has urged Hong Kong to halt retail sales of pirated materials and to improve its already good intellectual property regime.

Dinner Hosted by Hong Kong Consul General

December 6, 1996

On December 6, 1996, U.S. Consul General Richard Boucher hosted a dinner in honor of the delegation with Hong Kong business and government officials to discuss the upcoming transition to Chinese control on July 1, 1997. In general, those in attendance held the view that China will work hard to implement successfully the so-called "one country, two systems" commitment, under which Hong Kong is to have substantial autonomy in many areas. There are concerns, however, that freedom of speech may be curtailed to some extent, and that local government officials in Hong Kong may create problems by trying too hard to curry favor with Beijing.

Working Session With American Chamber of Commerce in Hong Kong

December 7, 1996

On Saturday, December 7, the delegation, joined by Senator Frank Murkowski (R-Ala.), met with a group of American business representatives from the American Chamber of Commerce of Hong Kong, headed by Chamber President Frank Martin.

This group expressed strong confidence in Hong Kong's future, noting that a recent survey had found that some 95 percent of Chamber members expect the territory to continue to be a good or very good place in which to do business after the reversion to Chinese control on July 1, 1997. Observing that "confidence crisis" is unwarranted, Frank Martin said that he fully expects Hong Kong to remain a bastion of free trade and a center for international business and finance.

Mr. Martin discussed goals for the transition adopted by the Chamber, which include: (1) preservation of Hong Kong's legal system and the rule of law; (2) continued free flow of information; and (3) maintenance of a competent and honest civil service. He added that Chamber members regularly raise these concerns with Chinese leaders, and had done so as recently as the previous week during a visit to Beijing. He believes their warm and positive reception during this visit, as well as the open discussion of their concerns regarding Hong Kong, resulted, at least partly, from the overall improvement in the U.S.-Sino relationship since President Clinton met with President Jiang Zemin in November.

Congressman Kolbe asked whether the Chamber was concerned that corrupt business practices will seep into Hong Kong from China during the transition to Chinese rule. Members of the Chamber agreed that this was a valid concern which was being addressed by many leaders in Hong Kong. For example, at Hong Kong Governor Patton's behest, over 1,500 businesses operating in the territory have adopted codes of conduct aimed at stemming corruption. The Chamber has established several education programs and participates in the Independent Commission Against Corruption.

On behalf of the Chamber, Frank Martin urged the delegation to pursue legislation to grant permanent most-favored-nation tariff treatment to the products of China. The Chamber's view is that it is time to do away with the annual MFN debate which, he said, harms the relationship between China and the United States to the detriment of U.S. business interests in the region. Other Chamber members mentioned that the greatest force in history for social development is economic progress, and that an expanded U.S. business presence in China is helping to improve conditions. Two executives noted that U.S. investors in China apply international labor and environmental standards, and thus raise the standards within China.

Several Members of the delegation, particularly Chairman Crane, agreed with this assessment, although they cautioned that a majority of Members of Congress probably would not support permanent MFN at this time because of continuing tensions between China and Taiwan and Hong Kong's pending transition to Chinese control.

Ranking Member Rangel urged members of the Chamber to use their relationship with China to pressure the Chinese Government to improve human and workers' rights. Chamber members, he said, should actively communicate with U.S. workers regarding the good that U.S. companies are doing in China. In his view, the "trust us to do the right thing" argument is not effective, and constituents who believe that American businesses move jobs overseas to avoid

U.S. standards have a right to have their concerns taken into account.

Representing Caterpillar of China, Richard Kahler supported continued pressure on the Chinese within the context of permanent MFN trade treatment, as well as ongoing negotiations for China to join the WTO. His company, he said, is significantly disadvantaged in China, where it faces stiff international competition as a result of the annual MFN debate. Caterpillar also experiences problems with Chinese restrictions on foreign investors and encounters numerous limitations attached to channels of distribution.

Finally, the executives discussed what they believe will happen during the transition to Chinese rule. They do not expect to see arrests of demonstrators or shutdowns of newspapers. The Provisional Legislature appointed by China will be in place for 1 year until 1998, when a general election will be held. Chamber executives do, however, expect some self-censorship on the part of the press as journalists endeavor to avoid offending authorities in Beijing.

See Appendix B for the 1996 business confidence survey prepared by the Chamber.

Singapore

Meetings With Ambassador Barshefsky and Other U.S. Government Officials

December 9 and 11, 1996

The CODEL met with Acting U.S. Trade Representative Charlene Barshefsky on two separate occasions in Singapore to discuss U.S. strategy and objectives for the WTO Trade Ministerial Meeting as well as U.S.-China trade relations. At their initial meeting on December 9, 1996, Ambassador Barshefsky noted that the U.S. delegation was working around the clock with about 30 different countries to secure agreement at the Ministerial on an ITA. The ITA would eliminate tariffs among participating countries on a broad range of products related to the information superhighway, including telecommunications equipment, computers, semiconductors, and software. Global trade in such products currently runs in excess of \$600 billion. Agreement on an ITA, if achieved, would be the only concrete outcome at Singapore, Barshefsky said. She urged the CODEL in its meetings with other countries while in Singapore to underscore the importance the United States and the U.S. Congress attached to concluding an ITA at the Singapore WTO Ministerial.

At the same meeting, FCC Chairman Rex Hundt asked the CODEL also to stress with other countries the need to improve their offers in the ongoing WTO negotiation on basic telecommunications services, which is to conclude in Geneva on February 15, 1997. Hundt described the ITA as covering the "cars and trucks" of modern day communications while the basic telecommunications services agreement is designed to liberalize the "road" on which they travel by permitting foreign investment in, and access to, a country's basic telecommunications network. Hundt noted that world telecommunications services revenues now exceed \$550 billion. In the United States, telecommunications-related jobs account

for two out of every three net new jobs created in the past 5 years. From a U.S. perspective, the objective of a WTO basic telecommunications services agreement is to create greater competition with foreign monopolies, which are currently being underwritten, in effect, by U.S. consumers because of the way current international accounting rates operate and a lack of competition in their own markets.

On other Ministerial-related matters, Ambassador Barshefsky was pessimistic that progress would be made to reduce further tariffs on paper and wood products despite more than 2 years of prodding by the United States leading up to the Singapore Ministerial. The European Union is opposed to cutting tariffs further on paper, and the Japanese are opposed to cutting tariffs on wood products. As for seeking agreement to form a WTO working party on trade and labor, as mandated by section 131 of the Uruguay Round Agreements Act, Ambassador Barshefsky doubted that such a working party would be achieved due to strenuous opposition from developing countries, which saw it as a protectionist gambit. Consequently, the USTR delegation was now seeking a work program of cooperation between the WTO and the International Labor Organization (ILO) whose purpose would be to demonstrate that labor standards and liberalized trade are mutually reinforcing. Such a WTO-ILO program of cooperation is necessary, Barshefsky stated, to rebuild public confidence in the value of trade agreements and the world trading system.

Rich Romminger, Under Secretary for International Affairs at the U.S. Department of Agriculture (USDA), advised the delegation that the main U.S. agricultural objective for the Singapore Ministerial was to ensure that all WTO member countries are faithfully implementing their Uruguay Round obligations. He expressed particular frustration with the EU because the United States is forced to approach individual member states to obtain adherence to their Uruguay Round obligations on matters such as veterinary equivalence, rice, and genetically grown corn and soybeans.

Ambassador Barshefsky and the CODEL also discussed U.S.-China trade relations at length in preparation for the CODEL's subsequent stop in Beijing. Barshefsky asked the CODEL to reinforce President Clinton's recent message to the Chinese on nuclear nonproliferation, human rights, North Korea, and WTO accession. On WTO accession, the President told President Jiang Zemin at the recent APEC meeting in Manila that the United States wants China in the WTO, but it must be on commercially reasonable terms. China needs to improve her offers on market access and compliance with WTO rules and correct bilateral trade problems on agriculture and intellectual property in order to improve the confidence of Congress and the American people in the Chinese ability to enter WTO on equitable terms. Unfortunately, both the agricultural and intellectual property rights problems with China are worsening. On intellectual property rights, although the Chinese have closed 17 of 32 illicit but identifiable CD-manufacturing plants, the number of illicit underground factories has increased to around 60 or 70. Barshefsky asked that the delegation encourage the Chinese authorities to locate these underground factories and close them. If they cannot find them, at a minimum they must stop

the export of the illicit CDs. Underground CD-producing factories are particularly troublesome, she stated, because they can be relocated in a mere 10 hours and are run by Chinese, Hong Kong, and Taiwanese criminal gangs.

In the CODEL's second meeting with Ambassador Barshefsky on December 11, 1996, she reported that she had struck a basic deal on the ITA the previous evening with her EU counterpart, Sir Leon Brittan, but that he had not yet gotten final member state approval because of resistance from France, Spain, Italy, Greece, and the Netherlands. Failure to gain EU Council approval for the deal at this juncture, she stated, would make it more difficult to bring on the Asian countries by the end of the Ministerial conference, but not impossible. She noted that the ITA product coverage would exclude optic fiber, fiber components, and television tubes, but would include fiber cable, digital photocopiers, and capacitors. As for the definition of computer monitors to be covered by the ITA, it would include a footnote for dealing with the thorny issue of HDTV. On agriculture, it now seemed unlikely that the Argentine proposal to accelerate preparatory work for the next phase of agricultural negotiations, to be started in 1999, would be accepted.

Returning to the matter of the CODEL's upcoming visit to Beijing to discuss U.S.-China trade relations, Ambassador Barshefsky reiterated the need to stress the need to reverse the growing bilateral trade deficit with China by increasing access to the Chinese market. Overall 1996 exports from the United States to China are flat, and agricultural exports are down 37 percent, despite the fact that the Chinese economy grew 12 percent this year. Ambassador Barshefsky also reported that an EU proposal to issue a Quad statement at the Singapore Ministerial favoring the notion of some type of "conditional" Chinese accession to the WTO had been soundly rejected by the other Quad countries.

Ambassador Barshefsky and the CODEL also discussed the recent Export-Import Bank rejection of the Three Gorges Dam project in China. In response to questions from Chairman Crane, she mentioned some of the problems associated with the project, including the forced and unplanned relocation of over 1 million people, environmental degradation, downstream and upstream effects, financial viability, and no guarantee that the project would ever be completed. Accordingly, the administration recommended that Eximbank not finance the project.

Finally, regarding the issue of permanent most-favored-nation trading status for China, Ambassador Barshefsky suggested that the CODEL indicate that it would welcome permanent MFN for China, but as part of a successful WTO accession package.

Prior to leaving Singapore on the morning of December 18, 1996, the CODEL was briefed by Deputy USTR Ambassador Jeff Lang on the state of the negotiations on the ITA and the Ministerial Declaration. Ambassador Lang reported that agreement on an ITA was at hand but was being held up over continued disagreements in the Ministerial Declaration on trade and labor. He noted that agreement has been reached on an ad referendum basis on language in the declaration on investment, government procurement, and competition policy, as well as on textiles and agriculture. However, the

United States would not sign off on the declaration as a whole until it was satisfied with the language on trade and labor.

Meeting With Singapore Minister of Trade and Industry Yeo Cheow Tong

December 10, 1996

Chairman Crane opened the meeting by congratulating Minister Yeo on the Ministerial. He noted that consummating the ITA during the Ministerial should be the highest priority of the meeting. He also mentioned the basic telecommunications services negotiations and market access for paper products as being high priorities. In response, Minister Yeo stated that Singapore is very supportive of the ITA.

Ranking Member Rangel stated his concern that all people enjoy the benefit of free trade and that a discussion on labor rights is important so it is clear that free trade is not intended to benefit merely a few. He stated that he supported "at least some working force" to monitor this issue. He said that he would appreciate Singapore's leadership in assuring that this issue was addressed, saying that to do otherwise would be "a cruel indictment" of what the WTO stands for. He stated that it would help increase support for free trade if workers felt that their concerns were being addressed. Congresswoman Thurman echoed these views. Congressman Kolbe responded by stating that there are differences within Congress on this issue and that he favors addressing this issue through institutions that already exist instead of through the WTO. Minister Yeo stated in response that he hoped the WTO members could develop a compromise on this issue. He said that there was unanimity that workers' welfare is important and that labor issues should not be used as a protectionist tool. He said that the language being discussed for insertion in the Ministerial Declaration was not as strong as he prefers but that it represents a compromise.

In response to questions from Chairman Crane, Congressman Kolbe, and Congresswoman Dunn, Minister Yeo updated the delegation on the status of the ITA negotiations, noting that there were still some outstanding issues but hoped they would be resolved quickly among the four "Quad" countries so that other countries would have an opportunity to join the agreement. He stated unequivocally that "there will be an ITA agreement."

Senator Grassley then asked for Singapore's help with bilateral disputes on agriculture between the United States and the EU, particularly relating to sanitary and phytosanitary measures without a scientific basis. Congressman Collins raised the issue of market access on paper and wood.

With respect to basic telecommunications services negotiations, Chairman Crane stated his hope that the Singapore telecommunications industry be opened further. Minister Yeo responded by saying that Singapore has been moving very aggressively in the right direction and was awarding compensation to its shareholders to shorten the life of the telecommunications monopoly.

Meeting With European Parliamentary Delegation

December 10, 1996

Congressmen Kolbe, Collins, Dunn, and Thurman and Senator Grassley met with a group of members of the European Parliament. Congressman Kolbe opened the meeting by emphasizing the importance of concluding the ITA. He also noted the differences within the delegation as to the treatment of worker rights within the WTO.

Willy deClerq of Belgium responded by stating that two priorities of the European Parliament relate to labor rights and environmental issues. He stated that he was very much disappointed in the language being discussed for the Declaration because it indicated a lack of willingness to talk about worker rights, which in turn has domestic political impact. As to investment and competition policy, he noted his disappointment that there will be no quick negotiations. He stated that the EU is not "lagging behind" in the ITA negotiations because it wants to open this market immediately. The problem, he noted, was in obtaining other signatories. In response to a question from Congressman Kolbe, he said that the coverage must be as broad as possible.

Concerning the basic telecommunications services negotiations, Carlos Pimenta of Portugal stated that the U.S. opening of the satellite market is critical. He supports quick telecommunications privatization in Europe, stating that the high price of telecommunications services in Europe amounts to a "tax" on trade. The German Bundestag representatives stated that the goal in Germany is to privatize by 1998.

Senator Grassley next raised agriculture issues, asking the Parliamentarians whether they supported beginning negotiations on agriculture within the WTO by 1999. DeClerq responded by stating that he supports implementation within the timeframe set forth in the built-in agenda. Senator Grassley then inquired about European practices relating to sanitary and phytosanitary measures, asking whether the Europeans were "ignoring" their obligations that such measures have a scientific basis with respect to BT corn, hormone-fed cattle, and pet food. Pimenta responded by saying that the hormone issue was not a political question and that the EU negotiators have no instructions to block the negotiations. As to BT corn, he said that the consumer is entitled to know whether BT corn has been mixed in with BT-free corn. Mr. Kittelmann of Germany noted that this issue is highly emotional.

Congressman Kolbe then raised the Helms-Burton legislation, cautioning that if the EU takes the issue to WTO dispute settlement, the outcome could be dangerous if the United States claims the national security exemption in response. Such a move, he added, would lead to an erosion of WTO obligations as countries used the national security exemption readily. Senator Grassley stated that there was no political will in Congress to amend the legislation but that in his view the provisions would not be used. Congressman Kolbe stated that it would be helpful if Europe would do more to assure democracy in Cuba.

Congressmen Collins and Dunn next asked the Parliamentarians for assistance in the acceleration of decreased tariff on paper.

DeClerq stated that the Parliament has no position on the issue because it has not addressed it. The delegation shared some written materials on the issue.

Senator Grassley asked the Parliamentarians for their views on China's accession to the WTO, noting his perception that Europe wants China to accede more quickly than other trading partners. DeClerq stated that he does not support Chinese accession "at any cost" and that China must fulfill certain conditions before entry should be permitted.

Mr. Pimenta then asked about environmental issues, encouraging the United States to support a unified approach on these issues and to work with the EU on legislation such as turtle excluder devices. Congressman Kolbe responded by stating that legislation removing the "tuna/dolphin" ban is a very high priority for the 105th Congress because current law is inconsistent with U.S. international obligations.

The meeting concluded with an agreement between the two delegations to strengthen an interparliamentary relationship between the United States and the EU.

Meeting With Canadian Parliamentary Delegation

December 10, 1996

The CODEL met during the afternoon of December 10, 1996, with a Canadian delegation composed of both Canadian Parliamentarians and Canadian Government officials. Chairman Crane opened the meeting by outlining U.S. objectives for the Singapore Trade Ministerial, particularly the ITA, improved offers on basic telecommunications services and financial services, and reduced tariffs on wood and paper. The members of the Canadian delegation responded that their priorities for the Ministerial were the ITA, improved offers on financial services, and agreed language in the declaration on investment and core labor standards. On the issue of China's accession to the WTO, Chairman Crane noted that while the United States was willing to provide a reasonable transition period for China, the time limits for Chinese transition to full adherence to WTO standards must be clearly established. The WTO would be a much different organization with China as a member. Senator Grassley stressed that it is important to win the major battles with China before it enters the WTO since it will be a formidable agricultural competitor. The Canadian side agreed that the WTO should not lower the goalpost for China's WTO admission and stated that agriculture is a major priority for Canada in the negotiations.

The meeting also touched on the respective problems the United States and Canada were having in their bilateral agriculture trade with the EU. Senator Grassley noted, in particular, that the EU was blocking U.S. exports of genetically engineered corn and soybeans.

Returning to the draft Singapore Ministerial Declaration, the Canadian side asked to what extent the U.S. position on labor was being driven by internal U.S. political opposition to free trade. Congressman Rangel replied that, if the WTO ignored labor standards, it would be more difficult to sell free trade to the American public.

Instead, he said, trade must be shown to benefit all to be politically sustainable. Chairman Crane stated that the Republican position was not to link labor and environment matters to trade unless they were directly and immediately related to trade. General labor issues should be dealt with in the ILO. The Canadians said they could accept the Director General's draft language on core labor standards but not much less. The Canadians asked if the United States was still supportive of the North American Free Trade Agreement (NAFTA), to which the reply was yes.

During the course of the meeting, a Canadian Parliamentarian noted in an aside that he had recently been to Russia. He described the economic situation there as chaotic. Three and a half million people are in internal migration due to economic dislocation resulting from the economic reforms of the country. "People are sleeping in boxcars," is the way he sadly summed up the state of affairs.

Meeting With Singapore Prime Minister Goh Chok Tong

December 10, 1996

The delegation met with Prime Minister Goh and discussed a broad range of issues including the progress of the WTO Ministerial Meeting and China's future role in the region.

Meeting With Mr. Vincent Siew, Leader and Former Economic Minister, and the Parliamentary Delegation of Chinese Taipei

December 10, 1996

On behalf of the delegation, Chairman Crane expressed strong support for the rapid accession of Taiwan to the World Trade Organization, indicating his belief that Taiwan's trade regime is very close to being in compliance with WTO requirements. He said he was optimistic, in light of improving relations between China and the United States evidenced by the tone set at the recent meeting between President Clinton and President Jiang Zemin, that an expeditious arrangement might be found so that Taiwan could join the WTO as a developed country.

Echoing support for Taiwan's WTO accession, Senator Grassley nevertheless cautioned that further progress had to be made to reduce barriers to imports of agricultural products such as beef, poultry, and pork. Ranking Member Rangel urged Taiwan to follow through on its commitment to join the Government Procurement Agreement at the same time that it accedes to the WTO.

Speaking for the Taiwanese people, Mr. Vincent Siew, Leader of the Parliament and a former Economic Minister, expressed the strong desire of the Taiwanese people to be accepted into the WTO as soon as possible. Responding to Senator Grassley, Mr. Siew said he did not "see any problem" in making the necessary agricultural reforms. He thanked Congress for passing a resolution in 1992 that pushed the administration to actively seek Taiwan's membership in the General Agreement on Tariffs and Trade (GATT). The resolution, he said, succeeded in getting Taiwan's application on the GATT agenda, which was a great accomplishment.

Mr. Siew expressed regret, however, that the negotiating process has slowed down. Whether or not there is a political linkage, he

said, the Taiwanese people believe it is unfair for Taiwan's case to be delayed because of USTR's preoccupation with China's application. He asked the delegation to urge USTR to expedite Taiwan's negotiation so that "everything is ready." Taiwan wants to complete the process soon, he stressed. "We have been kept waiting too long." Chairman Crane observed that now that the U.S. Presidential election has passed, the administration will be able focus more on advancing Taiwan's application to join the WTO. Mr. Siew observed that China can make relations difficult due to the government's proclivity to "shoot at its own foot." Jiang Zemin, he said, is working gingerly to dismantle the government's control of people's lives on the mainland.

Meeting With Russian Delegation

December 10, 1996

The CODEL met on the afternoon of December 11, 1996, with an 11-man Russian delegation attending the Singapore WTO Ministerial in an observer capacity. Russia currently is negotiating on accession to the WTO. After Chairman Crane outlined U.S. objectives for the Ministerial Meeting, the Russian delegation described the current economic situation in Russia. They noted that Russia is undertaking political and economic reforms simultaneously. The recent reelection of President Yeltsin reaffirmed popular support for these reforms. The main economic reforms are being carried out as part of the budget process in Russia. In this regard, Russia hopes to reduce its central government deficit from 3.5 percent next year to 2 percent by the year 2000. Inflation has been cut from 100 to 20 percent this year, with the governments aiming at 11 percent next year and 5 percent by 2000. After years of declining production, GNP has begun to grow again—by 2 percent this year and 6–8 percent by the year 2000.

Congressman Rangel asked what the CODEL could do to be helpful to Russia to facilitate its transition to a democratic country. The Russian side asked for help in obtaining additional International Monetary Fund (IMF) financing and revising IMF monitoring practices of Russian economic reforms from a monthly to a quarterly basis. Congressman Rangel said he would try to help and asked the Russians to have the Russian Ambassador in Washington contact him when he returned to the United States.

The Russian side asked what could be done to remove Russia from the strictures of Jackson-Vanik and be given permanent MFN, which would be useful in creating a more stable bilateral trade relationship and attracting foreign investment to Russia. Congressman Rangel noted that this was a very difficult political issue and opined that maybe something could be done as the two sides moved closer together, although this would take additional time. The Russian side also asked whether Russia could be treated as a market economy under U.S. antidumping law. They explained that currently, Russia is treated as a nonmarket economy, which does not reflect reality and leads to higher margins of dumping against Russian imports. Congressman Rangel noted that Russia could be administratively reclassified as a market economy under the current law if it satisfied the legal criteria for a market econ-

omy country. Russia should take this up directly with the Assistant Secretary of Commerce for Import Administration, he stated.

Meeting With Singapore Foreign Minister Jayakumar

December 11, 1996

Minister Jayakumar welcomed Senator Grassley, Congressman Rangel, and Congressman Kolbe, stating the importance of legislative contacts to bilateral relationships. He noted that Singapore advocates the U.S. involvement in the region, and U.S. presence is a major factor in the stability of the region. Senator Grassley commended Singapore for its leadership in the Ministerial. He and Congressman Kolbe emphasized the importance of concluding the ITA at the Ministerial, encouraging Singapore to do what it could to assure this outcome. Minister Jayakumar stated that the United States and Singapore are in agreement over the importance of free trade in general and the ITA specifically. He emphasized that Singapore, as the chair of the Ministerial, must appear impartial and neutral. However, in its role as an individual country, it will proceed with like-minded delegations to bring countries to the ITA.

Ranking Member Rangel stated his concern that all people enjoy the benefit of free trade and the importance of labor rights in this regard so that trade does not benefit merely a few. Congressman Kolbe noted that there are differences within the delegation concerning labor rights. He reiterated the importance of concluding the ITA during the Ministerial. In response, the Minister stated that Singapore would support phasing out ITA tariffs within the timetable that the United States supports, although there would be no common ASEAN position on timetable. Finally, Congressman Kolbe asked the Singapore Government to make a strong statement about concluding the basic telecommunications services negotiations by the deadline next year.

In response to a question from Ranking Member Rangel regarding the U.S.-China relationship, the Minister stated that the world must accept that China is a major economic power, but that China, in turn, must observe the "rules of the game." Specifically, territorial claims to the South China Sea must be resolved according to international rules. He noted that the United States should engage China but that it cannot contain China. Instead, the goal should be to assure stability in the region. Senator Grassley and Congressman Kolbe asked whether China should be permitted to enter to WTO under special circumstances. Mrs. Seet-Chen of the Ministry replied that China should not accede to the WTO on its own terms but that it must negotiate transitions.

Senator Grassley then raised the subject of agriculture trade, noting that China would be given a tremendous advantage if it were permitted a special arrangement in agriculture, wiping out all gains in the global regulation of agriculture. The Minister said in response that this would have to be negotiated.

Congressman Kolbe then asked about foreign policy issues within the region. The Minister described the possible flashpoints in the region: (1) Korea; (2) South China Sea; and (3) the China-Taiwan relationship. As for Korea, he noted that little information is known at this time. He mentioned that it may not be in China's

best interest to have a unified Korea with a nuclear arsenal. However, he further noted that the extent to which China has leverage in the area is unclear.

With respect to the South China Sea, the Minister stated that the issue must be managed so that it does not erupt. To the extent that the area has important routes, resolution on passage and overflow must be obtained. After Congressman Kolbe asked whether there could be a valuable U.S. role in the region, the Minister stated that the United States can best help by fostering an international forum where countries can discuss the issue, such as the ASEAN Regional Forum. Ambassador Nathan pointed out that China was comfortable with the forum because it is ASEAN-driven and not an initiative of the United States. He cautioned that now is not the time for the United States to be too active.

Finally, concerning Taiwan, the Minister stated that Taiwan must be patient and should give a signal that it is not seeking independence. For example, it might reconsider its bid to seek United Nations membership.

In conclusion, Congressman Rangel stated that it is difficult to think that China is dwelling on past sensitivities when it has so many opportunities before it. Instead, he said, we should now move forward. Ambassador Nathan noted the importance of tradition and the memory of the past with the Chinese people.

Alan Larson, Assistant Secretary of State for Economic and Business Affairs

December 12, 1996

Prior to departing for Beijing for Singapore, the delegation met with Assistant Secretary of State Alan Larson to discuss Secretary of State Warren Christopher's recent trip to China.

In meetings with President Jiang Zemin and Premier Li Peng, Secretary Christopher made the following points: (1) the U.S. supports Chinese accession to the WTO and is willing to consider appropriate transition periods for some obligations; and (2) the recent Chinese standstill commitment (to impose no new WTO inconsistent laws or policies) is welcomed by the United States as a sign of seriousness with regard to assuming WTO obligations.

Assistant Secretary Larson said that both Chinese leaders responded that China is opening its economy, and that both the United States and China must make concessions, but that China will not agree to measures which undermine her fundamental economic interests. China has reduced tariffs from an average rate of 35 percent to 23 percent and will reduce tariffs further to an average rate of 15 percent upon accession to the WTO. These two Chinese leaders told Secretary Christopher that, at the top political level, China is prepared to wait to join the WTO "until the time is right."

Assistant Secretary Larson views Chinese barriers to imports of agricultural products as a serious systemic problem which fuels political difficulties in the United States because of the importance of agricultural exporters to maintaining the free trade coalition in Congress. For example, China fails to apply a sound science standard consistent with the WTO's Sanitary and Phytosanitary Agreement for imports of citrus fruit, grapes, beef, Pacific Northwest

wheat, and stone fruit. China currently imposes a ban on imports of poultry.

With regard to the protection of intellectual property rights, China has taken important strides toward creating an effective system, Larsen stated. Progress has been made in stemming the piracy of compact disks, especially of sound recordings. However, China needs to make additional progress on market access for sound recordings, computer software and motion pictures, he said. A key problem is the proliferation of underground factories in south China which are exporting computer software. The administration has urged the Chinese to step up efforts to shut down these illegal ventures, many of which are run by international organized gangs.

Textiles is another area in which the administration has asked the Chinese to improve enforcement. Within the context of negotiations to extend the U.S.-China bilateral textile agreement, which will expire December 31, 1996, the two parties have exchanged proposals regarding improved market access, anticircumvention measures, improved administration of the agreement through electronic exchange of export licensing information, and measures to verify compliance with rules of origin.

People's Republic of China

Briefing by U.S. Embassy Officials, Beijing

December 13, 1996

The CODEL received an extensive briefing by the U.S. Embassy economic staff on current developments in the Chinese economy and in the Chinese foreign trade regime. Current unemployment in China is 10–15 percent by U.S. standards, with 20 million entering the job market every year. One hundred ten million people are employed in state companies, or one-sixth of the total workforce. Eighty percent of all employed Chinese still work in agriculture.

Current per capita income is estimated at \$650 per year. The World Bank recently estimated that 350 million Chinese still live below the poverty line. Regional income disparities are significant with per capita income in the richest areas 12½ times as high as per capita income in the poorest areas. China has a high savings rate but many startup companies have difficulty obtaining funds locally due to the inefficiency of financial intermediaries in China.

As for foreign trade, 20 percent of Chinese GDP is exported (\$150 billion out of a \$700 billion economy), including 30–40 percent of industrial output. Seven percent of total Chinese output is exported to the United States. Forty-one percent of Chinese exports are attributed to foreign investors in China. This has led to a burgeoning trade surplus with the United States as Taiwan, Hong Kong, Singapore, and Korean companies have moved export operations to China. In this regard, China's trade surplus with the United States in 1988 was \$3–4 billion, while that of the Asian tigers was \$35 billion. In 1996, these figures have been reversed.

The Embassy pointed out that the Chinese argue that their trade surplus is due in large part to U.S. export controls and trade data discrepancies. For example, there are 13 U.S. statutes that impede U.S. exports to China (largely relating to Tiananmen sanctions).

Moreover, the Chinese would like to purchase nuclear power stations from the United States but are precluded from doing so.

The Embassy suggested that the CODEL stress the political volatility of the trade deficit and point to Chinese restrictions on U.S. imports, such as wheat, cotton, meat, and soybeans. These imports are currently restricted on questionable sanitary-phytosanitary grounds that are inconsistent with WTO standards.

The Embassy noted that it is extremely difficult for U.S. companies to do business in China due to the bureaucracy. Nonetheless, a core group of companies—e.g., IBM, Coca-Cola, General Electric, John Deere, Proctor & Gamble, Motorola—is doing well in China. The Chinese also have a high degree of confidence in U.S. insurance and service companies, although access to the market is still restricted.

As for Chinese WTO accession, the Chinese made some positive gestures at the last working party meeting in Geneva. These included a standstill commitment on new restrictive measures and some national treatment commitments. Nonetheless, successfully concluding a protocol of accession for China will be difficult—partly due to the huge number of nontariff measures still in place in China, and partly due to timing. Specifically, while the United States is coming out of a political election cycle, the Chinese are just entering one, to culminate in the selection of a successor to Premier Li Peng in October. Moreover, the reversion of Hong Kong to China in July 1997 will divert the attention of the Chinese leadership from matters such as WTO accession in the coming months.

In a discussion later the same day, the Embassy briefed the delegation on the issues expected to arise during meetings with Chinese leaders. Embassy officials described the recent decision of Eximbank not to finance the Three Gorges dam project. The administration's concerns over the project include the huge number of people that would have to be relocated most likely to already overcrowded cities and the flooding of cultural sights. Because Eximbank did not approve the project, it will be difficult to obtain private funding.

Meeting With MOFTEC Vice Minister Sun Zhenyu

December 13, 1996

Vice Minister Sun began by noting that the recent meeting between President Jiang Zemin and President Clinton signaled improved relations between the two countries. He noted that China had sent a delegation to the WTO Ministerial Meeting in Singapore and hopes to gain membership in the WTO in the near future. China, he said, is determined to achieve this goal as a way to demonstrate that it is a responsible member of the international community. He believes there will be a cost to China if membership is delayed. Although China is prepared to fully observe all WTO rules over a period of time, the United States should appreciate that this represents an arduous task for China.

Many factories in China operate inefficiently and will not be able to meet the tough competition of additional imports. Chinese leaders are worried that the stability of Chinese society will be threatened because China does not have fully functioning social security

programs to protect the poor. In this vein, China has made difficult political decisions in order to pursue WTO membership. These difficult decisions indicate China's resolve to continue the process of reforming of its economic system.

Vice Minister Sun welcomed U.S. support for China's early accession to the WTO. Chairman Crane cautioned that WTO membership for China has its detractors as well as proponents in the United States and that it will take time to achieve a bipartisan consensus in support of this effort. He observed that joining the WTO will result in significant economic benefits for the Chinese people because of the economic liberalization required by the WTO.

Observing that the rest of the world hopes that the United States and China will resolve their differences for the sake of peace as well as prosperity, Ranking Member Rangel acknowledged that there are people in both countries who believe they will be adversely affected by increased trade. For example, it is difficult to explain to U.S. workers why China needs special protections when she is exporting so much more to the United States than U.S. companies export to China. U.S. workers fail to understand why U.S. wheat and citrus are denied entry to China on phytosanitary grounds, and why industries producing movies, computer software and sound recordings are facing trade barriers in China. A political reality for elected officials in the United States, said Congressman Rangel, is that it does not appear to U.S. workers that their products are being treated fairly in the Chinese market.

With respect to the size of the trade deficit that the United States has with China, Minister Sun noted that there is a large discrepancy between U.S. statistics (\$34 billion) and Chinese statistics (\$8.6 billion.) In China's view, much of the disparity can be accounted for by the fact that a large percentage of China's exports (about 56 percent) to the United States are managed by in-bond processing companies which supply raw materials to China and ship final products through Hong Kong and other countries. Many of these companies are U.S. owned and have very large markup ratios. Under the U.S. accounting system, the entire value of these goods produced by companies such as Mattel and Nike are counted as China's exports to the United States.

Minister Sun maintained that several U.S. policies contribute directly to the size of the bilateral trade deficit: (1) lack of Eximbank financing for the \$10 billion Three Gorges Dam project; (2) prohibitions against U.S. companies participating in nuclear cooperation projects and; (3) restrictions on U.S. companies supplying technology for the installation of a weather computer. He said that China enjoys a comparative advantage in products such as toys and consumer electronics, which are supplied to U.S. consumers at attractive prices. The U.S. advantage lies in the production of high-tech products, the sales of which are often limited by U.S. policies restricting exports.

With respect to restrictions on U.S. wheat exports to China, Minister Sun explained that China cannot import from TCK infested areas because contamination of China's wheat production with TCK smut spores would be disastrous for China as it often faces life-threatening food shortages. He views this as a scientific issue affecting national sovereignty rather than strictly a trade issue. On

the subject of protection of intellectual property, he reviewed China's enforcement efforts, including the detention of \$10 million of pirated goods.

Minister Sun complained that the annual debate over China's MFN status puts the U.S.-China trade relationship in an uncertain atmosphere, leading people to think that MFN might be revoked. He applauded passage by the U.S. Senate of legislation to change the terminology of MFN to Standard Trade Relations, or STR.

Senator Grassley thanked China for being a growing purchaser of U.S. products. He believes that the world's future depends on economic giants such as the United States, the European Union, and China resolving their differences. Saying that trade is a two-way street, he emphasized that the United States needs income from selling goods to China in order to buy Chinese products. Tremendous trade deficits with one country are usually indicative of underlying structural problems, he said, and are inherently unsustainable as a political matter.

Senator Grassley went on to urge Minister Sun to consider the importance of U.S. agricultural imports to food security for the Chinese people. With the continued occurrence of droughts, China cannot depend on being self-sufficient in food production and thus needs U.S. supplies. He asked Vice Minister Sun to take another look at establishing more practical standards for imports of U.S. wheat, recognizing that it is impossible for U.S. exporters to certify zero levels of TCK spores. The Senator underscored the achievement of the WTO Agreements on Sanitary and Phytosanitary measures, which established common principles for setting standards "that gets politicians and bureaucrats out of making these decisions."

Congresswoman Dunn raised the subject of increasing aircraft sales to China, an issue important to her district, which is home to many employees of Boeing Corp. Congresswoman Thurman spoke in favor of opening the Chinese market to exports of U.S. citrus products through approval of U.S. inspection facilities, an issue which is currently under discussion.

Speaking as a member of the delegation who voted against extending MFN to China, Congressman Collins pointed to the bilateral trade deficit. He emphasized that his constituents see Chinese products filling U.S. shops, replacing products which used to be made by textile mills in Georgia which no longer exist. Until China buys more products from U.S. workers and firms, he stated firmly that he will not change his mind about MFN.

Meeting With American Chamber of Commerce, Beijing

December 13, 1996

The CODEL held a luncheon meeting with the American Chamber of Commerce of Beijing (ACCB) on December 13, 1996. Jim McGregor of Dow Jones, who is currently President of the ACCB, led off the discussion by noting that the U.S.-China relationship has historically had its ups and downs and is now in an upward phase. There are now 520 million Chinese who are 24 years old or younger; all they have known is the constant economic reform that has characterized China in recent years. While the Chinese people

are generally predisposed in favor of the United States, they resent the volley of criticism they receive from the Congress during the annual MFN renewal debates. China receives \$120 million per day in new foreign direct investment and is changing for the better every day through peaceful evolution. Mr. McGregor asked for patience and foresight from Members of Congress in dealing with China. Regarding WTO accession, the business community supports such accession by China on commercially viable terms. By that, they mean the ability of foreign businesses in China to do business on a national treatment basis. Negotiations on Chinese WTO accession would be difficult, however, in part because Chinese state industry still employs 110 million people and accounts for 45 percent of output.

Chairman Crane, Ranking Democrat Rangel, and Senator Grassley all made initial remarks to the gathering, describing the purpose of the CODEL and reporting on the CODEL's meetings in Singapore. They all stressed the bipartisan nature of U.S. trade policy and the fact that trade contributes to world peace. Congressman Rangel noted that, while the annual MFN debate is not appreciated by the Chinese, it does provide a regular opportunity for the U.S. Congress to debate U.S.-China relations before the public. In response, Jim McGregor again suggested that the annual MFN debate is counterproductive because the Chinese people do not like to be criticized unfairly. A better Congressional debate, he said, would be over how to achieve democracy in China. The annual MFN debate also erodes the U.S. business position in China by hurting sales. At the same time, he acknowledged that, regardless of the MFN debate, doing business with the Chinese can be frustrating. Specifically, foreign companies are required to follow a higher standard than Chinese companies. Moreover, China is basically a mercantilist nation when it comes to trade—"they export like capitalists and import like communists." Mr. McGregor pointed out that, while the Chinese are great negotiators, the United States buys one-third of their exports. Consequently, U.S. trade negotiators should insist that China provide reciprocal market access.

Jaime Horsley of Motorola commented on the ACC-Beijing position on Chinese WTO accession. She emphasized that China should be allowed into the WTO, but only on commercially viable terms. As a major trading nation, China should act like a developed country in the WTO and fully assume WTO obligations on MFN, national treatment, transparency, and trading rights.

A representative of Cigna Insurance described financial services as essentially off limits to foreigners in China, primarily because the Chinese Government fears the Chinese financial system will be overwhelmed by foreign competition if foreign companies are allowed into the market. The challenge is to persuade the Chinese that opening up the domestic market to foreign participation is a win-win situation and that profits made by foreign companies will not all be repatriated.

A Westinghouse representative said that China is a country of opportunity, particularly for electric power projects. These projects take 2-3 years for U.S. companies to put together with the Chinese and require U.S. Government and Export-Import Bank assistance to succeed. He lamented, however, that MFN uncertainties con-

tinue to make all his potential deals with China problematic. John McAlister concluded by urging the CODEL to work on their colleagues in Congress on funding for a new U.S. Embassy complex in Beijing. He said that the current facilities are a disgrace, disrespectful of the Chinese, and symbolic of a declining power. They are major impediments to U.S. companies doing business successfully in China. These remarks were widely applauded by the U.S. businessmen at the luncheon.

Meeting With State Planning Commission Vice Chairman Gan Ziyu

December 13, 1996

Chairman Crane opened the meeting by noting that he was interested in the progress that China has made toward economic reform. He stated that obtaining permanent MFN status this year is not realistic because of the timing of Hong Kong's reversion to Chinese control. However, he emphasized that he looks forward to Chinese accession to the WTO in a commercially viable manner, with all compliance standards and transition periods spelled out in advance.

Vice Chairman Gan began by describing the State Planning Commission (SPC) as a coordinating body under the State Council. He discussed its functions as formulating short- and long-term plans, replete with strategic targets, coordinating with other ministries regarding how to best achieve macroeconomic objectives within a market economy, and identifying and putting in motion major projects, including those involving joint ventures with foreign investors.

In describing China's economic development, Gan said there have been major successes as well as failures since the founding of the PRC 40 years ago. In the 1950s, per capita GDP was less than \$50 a year. While still very low today, a joint World Bank-Chinese study in 1985 found that GDP per capita had risen to about \$250. In the 17 years since China began its economic reforms, GDP has risen steadily, as a result of annual GDP growth which has averaged 10 percent annually. Moreover, the number of people at or below the poverty line dropped from 120 million in the 1980s to 65 million 1996, with the majority located in rural areas. Gan acknowledged that the figure may well be higher than that, citing the recent World Bank study which put those Chinese in poverty at 400 million.

Raising 65 million people out of poverty and improving productivity are the objectives of the ninth 5-year plan. By the year 2000, GDP per capita is supposed to be four times what it was in 1980 (i.e., over \$1000), and GDP itself is supposed to be four times the amount of 1980. This will require annual GDP growth rates of 8 or 9 percent per year. Vice Chairman Gan forecast annual growth rates of 7 percent for the decade beginning in the year 2000.

Another objective of the new 5-year plan is to make the economic system market driven by the year 2010. At present, Gan maintained, market forces govern 85 percent of agriculture output, 95 percent of consumption goods, and 90 percent of capital goods. In addition, the SPC is carrying out tax, banking, currency and for-

eign investment reforms. Economic reforms, Gan noted, need to take place in a stable economic environment that remains attractive to foreign investment and supports continued repayment of loans from international financial institutions, which now exceed \$150 billion.

With regard to China's performance in international trade, Gan estimated that China's total trade volume (exports and imports) would be \$290 billion this year, with a trade surplus of about \$16 billion. He forecast that total trade volume would be close to \$400 billion by the year 2000. Bilateral trade with the United States is fourteen times what it was in 1979, the year diplomatic relations were normalized.

As for the WTO, Gan said that China and the WTO "were on a convergence course" and cited as evidence China's recent reduction of 4,900 tariff line items, the cancellation of certain regulations and taxes for imported commodities, and the establishment of more transparent trade rules. Gan said that, as a developing country, China should not be asked to meet the "high demands" of other countries. Its economic system is still in transition, and it cannot step up the timetable for the sectoral changes that have to be made. Nor would such unacceptably high standards be beneficial to trade and investment relations, as they could result in destabilization of Chinese society. Gan said his goal is to make the capital account and the current account fully convertible after the year 2000, but to do this any sooner could potentially lead to economic chaos.

Following Gan's presentation, Senator Grassley noted that it was far easier for China to trade with the United States than with any other country in the world, and yet China does not seem very open to U.S. products. To strengthen the overall relationship, Senator Grassley suggested that China open its market to U.S. products.

Gan repeated the argument made by Vice Minister Sun that the size of the bilateral trade deficit is overstated by U.S. figures. He said that a large number of Chinese exports to the United States go through Hong Kong, and that these were beyond China's control. For example, if China imports raw materials valued at \$50 billion and exports products worth \$55 billion to the United States, the Chinese realize only \$5 billion in processing. He noted that many U.S. companies manufacture products in China, the prices of which are marked up significantly when they are sold in the United States.

Meeting With Vice Premier Zhu Rongji, Member Standing Committee, Politburo and Vice Premier

December 13, 1996

The delegation's last meeting in China was with Zhu Rongji, Member of the Politburo Standing Committee and Vice Premier in charge of the economy.

Discussing the bilateral trade deficit, Zhu recited the familiar argument that the size of the deficit was not nearly as large as U.S. figures suggest. Hong Kong transshipments are charged to China regardless of where these goods originate, he said. He estimated that 60 percent of total exports from China come from U.S., Japanese, European and Taiwanese firms that have invested in China.

They import raw materials and process them in China. But these enterprises have their own strategies and China cannot control them. All China gains from them is minimal employment opportunities, generally offering low wages. Zhu emphasized that the way to improve the bilateral deficit is for China to import more from the United States, and China is committed to doing just that, he said.

On the subject of wheat imports, Zhu noted that China was very concerned about the introduction of TCK smut spores—which he said had been found in shipments from the United States into Chinese wheat growing regions. To deal with the problem, China has proposed that Chinese agriculture inspectors go to the United States to preinspect wheat to be exported to China. The proposal is still under discussion, and China, he said, will import U.S. wheat as soon as these quarantine issues are settled through negotiations.

In response to an inquiry by Congresswoman Thurman regarding the prospects for selling U.S. citrus products in China, Zhu said that quarantine concerns need to be discussed here too, but that he was “confident of an eventual settlement of outstanding problems.”

Chairman Crane made the point that the United States takes a much larger percentage of China’s exports than does any of China’s other trading partners, including Japan and Europe. He urged Zhu to focus on expanding opportunities for U.S. exporters by increasing market access and eliminating trade barriers. In response, Zhu said there has been a rapid increase in Sino-U.S. trade, with Chinese companies favoring American products over Japanese, since U.S. firms generally share more attractive technology.

Congressman Collins next discussed the importance of successfully concluding negotiations to renew the bilateral textile agreement, which expires on December 31, 1996. He called on China to address the textile transshipment problem and to provide U.S. textile producers greater access to the Chinese market. The Vice Premier reaffirmed China’s intention buy more from the United States, saying that he saw “no big problem” with achieving market access in China for U.S. textile products. Higher value U.S. products should find an increased market in China, given the growing purchasing power of reasonably well-off Chinese. In the past, Zhu said, China was constrained with regard to the amount of textiles that could be imported. However, now that foreign exchange reserves have risen to \$102 billion, China could generally increase its imports of most general consumption goods.

The issue of China’s WTO accession, Zhu said, has been discussed for such a long period of time that his once black hair has now turned grey and the organization is now no longer called GATT. “There is a ray of light” now, however, he said, because “there are increasing pieces of news coming from the United States, that Americans are more willing than before to negotiate.” China hopes this issue, which depends chiefly on the American attitude, will be settled quickly.

Zhu believes the key matters to be resolved are the obligations that China will agree to shoulder and the transition periods that will be permitted for China. China simply cannot take on all the responsibilities of a developed country, maintained Zhu, pointing to the fact that Sir Leon Brittan of the EU had discussed this with

MOFTEC Minister Wu Yi during his visit last month, and had agreed with her on the importance of transition periods and phase-ins of obligations.

In response, Chairman Crane recognized that the question was one of transitions before China assumes all WTO obligations. As one of the biggest economic powers on the face of the earth, he said, China will have to agree to specific deadlines. Congressman Collins emphasized that it is time for China to put these transitions periods down in detail. "Let us know what you want and what you need to become a full partner in the international trading system," he urged. Avoid speculative discussion, he said, and focus on the plan and timetable that is needed to get China in the WTO.

Zhu took the view that the timing on some economic reforms is still unpredictable. One timetable was for China to cut its tariffs to an average rate of 15 percent by the year 2000, a figure that it had agreed to at the APEC meeting in Osaka in 1995. This would be in line with the average tariff rate in the developing world. Zhu stated that it was hard to predict when China could reduce tariffs below 15 percent, though his personal opinion was that this might be possible "within the 20th century." Later in the meeting he clarified that he did not mean to suggest that all tariffs across the board would be reduced to 15 percent or below. He cited the auto sector as one sector which would likely retain higher tariff levels. Finally, he noted that it was likely that General Motors would be a major player in the auto sector once its Shanghai joint venture started production, so, in this regard the United States should consider China to be an open market for American automobiles.

APPENDIX A

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
December 5, 1996

CONTACT: Ari Fleischer
(202) 225-8933

**CRANE ANNOUNCES VISIT OF CONGRESSIONAL
DELEGATION TO WORLD TRADE ORGANIZATION MINISTERIAL
MEETING IN SINGAPORE**

WASHINGTON - Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, announced that he will lead a Congressional delegation to the Ministerial Meeting of the World Trade Organization (WTO) in Singapore December 9-12 to consult with and advise U.S. trade negotiators.

Congress approved the Uruguay Round Agreements Act in late 1994. The Uruguay Round agreements, which entered into effect on January 1, 1995, established the WTO as the successor organization to the General Agreement on Tariffs and Trade (GATT) to implement the agreements internationally, resolve disputes and conduct future negotiations. Trade Ministers from over 120 WTO member countries will meet in Singapore from December 9-13, 1996 to review the status of world trade under the WTO, and progress made thus far in implementing the WTO. In particular, the delegation plans to discuss U.S. objectives and positions in the many areas under active negotiation in the WTO, including market access, textiles, agriculture and possible new issues for negotiation such as competition policy, investment and the environment.

In announcing the mission, Chairman Crane stated, "Maintaining strong export growth is critical to ensuring a vibrant economy in the 21st century. Because Congress is vested with the authority to regulate foreign trade, the Trade Subcommittee must work with the Administration to develop the best strategy and trade policy to achieve this goal. This bipartisan trade mission will give Members of the Trade Subcommittee the chance to impress upon our major trading partners the importance of lowering barriers to trade and investment. I look forward to broadening our dialogue with officials in these countries, and to supporting our negotiating team, led by Ambassador Charlene Barshefsky, in Singapore.

While in Asia the delegation will also travel to Beijing, China and Hong Kong for meetings with trade and foreign policy officials and business leaders to discuss prospects for China's accession to the (WTO) and for the reversion of Hong Kong to Chinese control in July 1997.

For security reasons, the itinerary of meetings will not be released.

APPENDIX B



美
國
商
會

1996 AMCHAM BUSINESS CONFIDENCE SURVEY

Summary Results

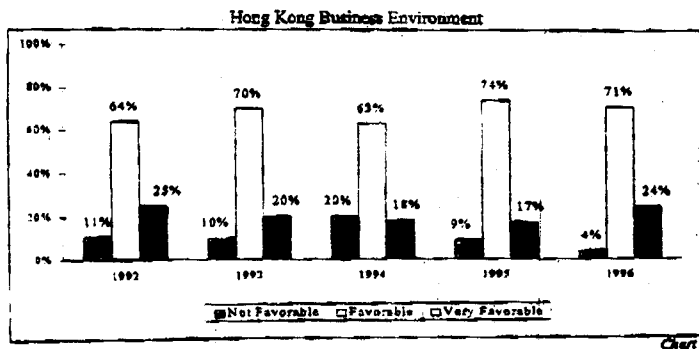
The results of the seventh annual AmCham Business Confidence Survey indicate that member companies are positive about the Hong Kong and China business climates in the years leading up to the next century. Compared to the last two years, AmCham members are generally satisfied that the economic and political atmospheres have improved.

Survey respondents anticipate reasonably good economic prospects, particularly in infrastructure development and services sectors. There are expectations that the retail market will stage a modest recovery, interest rates will remain at low levels and the Hong Kong dollar will remain stable. Inflation is at a nine year low. The stock and property markets reflect this high level of confidence.

Survey respondents seem to be encouraged by political developments despite lingering uncertainty about the issues surrounding the transition to Chinese sovereignty, notably the adaptation of laws and nationality. The results reflect rising expectations for a fairly smooth transition and a belief that China will adhere to the Joint Declaration and Basic Law. Also, respondents see a good potential for sustainable improvement in Sino-US relations and indications that the Clinton Administration is eager to accelerate engagement with China.

HONG KONG*Overall Business Climate up to 2001*

For the next five (5) years, 95% of AmCham member companies consider the business environment in Hong Kong as "very favorable" or "favorable." This is a four percentage point increase from last year. See Chart 1.



Survey conducted by Survey Research Hong Kong Ltd.

Hong Kong Business Environment

According to AmCham member companies, the top five (5) factors of doing business in Hong Kong are: geographic location (89%), communications network (87%), infrastructure (75%), free port status (69%), and taxation (66%). By contrast, the worst five (5) factors of doing business in Hong Kong are: the high costs of housing and office space, the high cost of labor, the low quality of environment, and inflation.

Hong Kong Company Performance

For the next three (3) years, 53% plan to expand their companies (46% in 1995 and 36% in 1994), 42% will continue "business as usual" (45% in 1995 and 53% in 1994), and only 4% will reduce investment in Hong Kong (8% in 1995 and 9% in 1994). Furthermore, 99% rate their overall performance as either good or satisfactory (97% in 1995). See Chart 2.

Forecast of Overall Performance

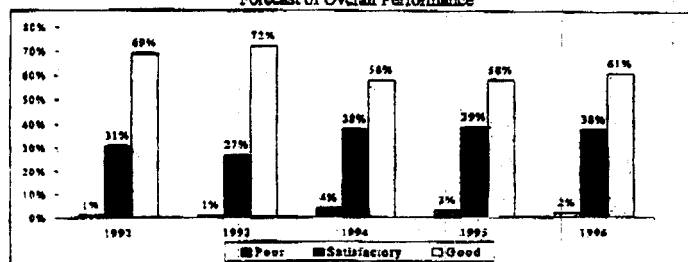


Chart 2

Hong Kong Regional Headquarters

Among the 457 companies that maintain regional headquarters in Hong Kong, 46% will expand (37% in 1995), 44% will remain the same (51% in 1995) and 9% plan to reduce the size of their offices (12% in 1995). This serves to reinforce observations that Hong Kong business confidence will remain high for the next three (3) to five (5) years. See Chart 3.

Change in Size of Hong Kong Regional Headquarters

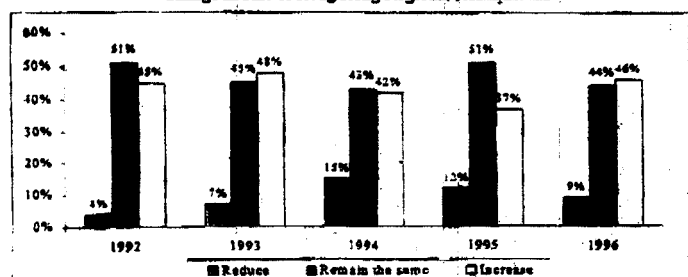


Chart 3

CHINA

Overall Business Climate up to 2001

For the next five (5) years, 96% of AmCham member companies consider the business environment in China as "very favorable" or "favorable." This is a three percentage point increase from last year. See Chart 5.

China Business Environment

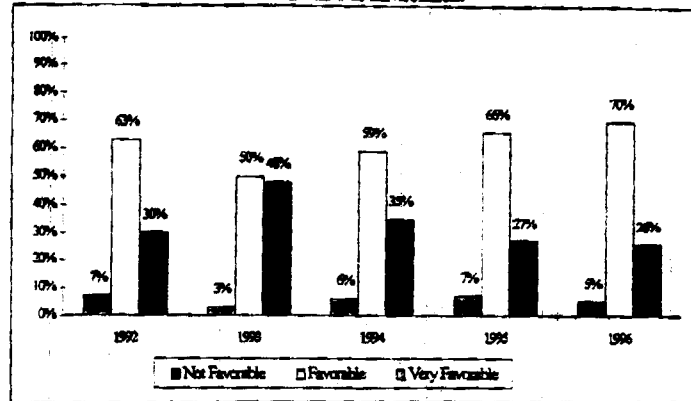


Chart 4

Presence and Investment in China

71% of AmCham member companies have existing operations in China (73% in 1995 and 67% in 1994). Of these companies, 86% plan to make additional investment in their China operations (83% in 1995).

Among companies that do not have a presence in China, 49% plan to make an initial investment in China over the next three (3) years. The top three locations that remain consistently popular for investment are: Shanghai (65% for initial, 61% for additional), Beijing/Hebei (49% for initial, 53% for additional) and Guangdong (41% for initial, 54% for additional).

Areas outside Guangdong province seem to be more attractive to initial investment. This may be attributed to the fact that many companies established their operations in the Guangdong areas during the early stages of open door policy. Results of this year's survey indicate that the Jiangsu (6%) and Fujian (5%) provinces are also becoming popular locations for initial investment.

According to AmCham member companies, the top five (5) incentives for beginning or increasing investment in China are: domestic market expansion (83%), favorable economic outlook (61%), low cost of labor (26%), improving infrastructure (24%) and improving regulatory environment (17%).

By contrast, the worst five (5) factors of doing business in China are: bureaucracy, lack of transparency in laws and regulations, corruption, lack of protection for intellectual property and lack of infrastructure.

CONCLUSION

Research Objectives

The annual AmCham Business Confidence Survey aims to:

- Measure the confidence level of business environment in Hong Kong and China for the next five (5) years among member companies;
- Gauge the expectation of business performance in Hong Kong and China among member companies;
- Provide an updated profile of Hong Kong and China operations among member companies;
- Understand and determine the issues that affect the investments in Hong Kong and China among member companies.

Response Rate

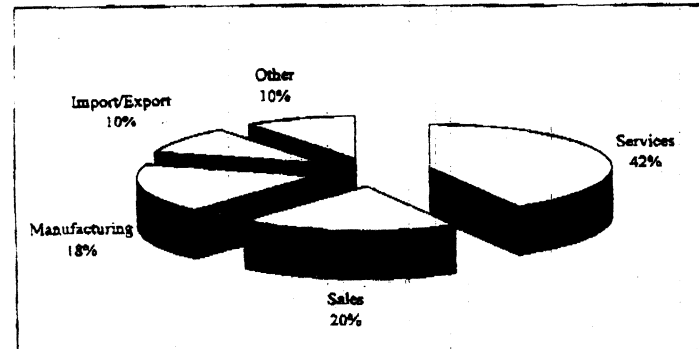
The 1996 AmCham Business Confidence Survey was conducted by Survey Research Hongkong Ltd. (SRH) from September 12 to October 30, 1996. A total of 1,100 questionnaires were mailed to AmCham corporate representatives. 633 people responded, representing a record high 57.5% response rate (48 % in 1995, 41% in 1994).

Company Profiles

Of the total number of respondents, 62% are based in the USA, 21% are based in Hong Kong and 8% are based in the United Kingdom. The primary nature of business is services (42%), sales and marketing (20%), manufacturing (18%), and import/export (10%). See Chart 5.

Primary Nature of Business

Chart 5



Prepared by Jennifer Li on November 1996

ref. report96.doc

Survey conducted by Survey Research Hongkong Ltd.